

NCA

VOC FOR PGM/FN

BACKGROUNDER NO. 5-5985

JULY 12, 1978

FRANK M. FEINBERG

MODERATE GROWTH RATE FOR U.S. ECONOMY

ANNCR:

ECONOMIC FORECASTERS BELIEVE THE U.S. ECONOMY WILL CONTINUE TO GROW OVER THE YEAR'S SECOND HALF, BUT AT A MORE MODERATE PACE. AND RESTRAINING INFLATION WILL BE EVEN MORE OF A CHALLENGE. VOA BUSINESS AND ECONOMICS EDITOR FRANK FEINBERG HAS THIS BACKGROUND REPORT:

VOICE:

THE EXPERTS, BOTH IN BUSINESS AND GOVERNMENT THINK THE U.S. ECONOMY WILL RECORD ITS FOURTH CONSECUTIVE YEAR OF ECONOMIC EXPANSION, BUT AT A MORE MODERATE PACE. AND THE PROGNOSTICATORS ALSO SEE THE POTENTIAL FOR A RISE IN THE INFLATION RATE. STATISTICS FOR THIS YEAR'S FIRST SIX MONTHS ARE NOT COMPLETE YET. BUT IT IS ESTIMATED THAT THE U.S. OUTPUT OF GOODS AND SERVICES DURING THAT PERIOD ROSE AT AN ANNUAL RATE OF EIGHT TO NINE PER CENT.

OUTPUT GROWTH HAS SOMEWHAT EXCEEDED GENERAL EXPECTATIONS. AND EMPLOYMENT HAS KEPT PACE. THE JOBLESS RATE -- DOWN TO FIVE POINT SEVEN PER CENT IN JUNE -- HAS IMPROVED SOONER IN THE YEAR THAN MANY AUTHORITIES HAD EXPECTED.

THE SPURT IN G.N.P.--GROSS NATIONAL PRODUCT -- AND EMPLOYMENT PROBABLY HAS PEAKED, THE EXPERTS SAY. AND THEY SAY THE STATISTICS FOR INVENTORIES, PRODUCTION AND NEW ORDERS INDICATE THE ECONOMY IS MOVING INTO A PERIOD OF MORE MODERATE GROWTH. YET, AT MID-YEAR, THE U.S. ECONOMY IS IN A RESPECTABLE POSTURE.

THE PRINCIPAL THREAT TO LONG-TERM ECONOMIC GROWTH IS INFLATION. ECONOMISTS OF THE CARTER ADMINISTRATION AND THE

PRIVATE SECTOR ANTICIPATE AN INFLATION RATE OF SOMEWHAT MORE THAN SEVEN PER CENT FOR 1978. THIS IS HIGHER THAN PRESIDENT CARTER FORECAST IN HIS JANUARY BUDGET MESSAGE.

INFLATION PICKED UP MOMENTUM EARLY THIS YEAR, PARTLY BECAUSE OF WEATHER-INDUCED PRICE INCREASES FOR FUEL AND FOOD. BEEF AND PORK PRICES ESCALATED ABOUT EIGHTEEN PER CENT THIS PAST SPRING IN THE UNITED STATES AS FARMERS SOLD LESS LIVESTOCK. ANOTHER BIT FACTOR IN THE INFLATION SPIRAL WAS THE SURGE IN INTEREST RATES.

NO ONE HAS A PANACEA FOR HALTING INFLATION. DRASTIC STEPS TO CURB IT QUICKLY COULD LEAD TO A RECESSION. THE CARTER ADMINISTRATION IS TRYING TO PERSUADE BUSINESS AND LABOR TO VOLUNTARILY HOLD DOWN PRICE AND WAGE INCREASES. AND SUCCESS IN THESE EFFORTS COULD BE CRUCIAL.

JS/PY